Massachusetts Electric
A National Grid Company

Amy G. Rabinowitz
*Counsel*

January 26, 2005

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

**Re: D.T.E. 04-119**

Dear Secretary Cottrell:

On behalf of Massachusetts Electric Company, Nantucket Electric Company, New England Power Company, and New England Hydro-Transmission Electric Company, Inc., I am enclosing the response to Department Information Request DTE 1-7. With this submission, the companies have completed their response to the Department's First Set of Information Requests.

Thank you very much for your time and attention to this matter.

Very truly yours,

Amy G. Rabinowitz

cc: Joseph W. Rogers, Office of the Attorney General

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DTE-1-7

Request: Refer to Exhibit MEC-1, at 12. Please provide an example of how the interest rate would be computed under interest rate option (ii). For purposes of responding to this question, the Company may apply currently available money market fund rates and depositor short-term investment accounts. As part of this response, discuss the appropriateness of relying on an interest rate method that appears to be based on non-public and non-indexed data.

Response: A short-term investment account has been established with J. P. Morgan. As cash is settled each day, any cash in excess of the needs of the Money Pool is deposited in this account.

Due to internal accounting requirements, the cash management group provides Money Pool interest amounts to the accounting group on the last business day of the month. Accordingly, on the last day of each month, J. P. Morgan will provide the estimated average monthly interest rate on the short-term investment account. This average will be compared to the monthly average of the rate for high grade 30-day commercial paper sold through dealers by major corporations as published in the Wall Street Journal ("WSJ CP Rate") and Money Pool borrowers will be charged the higher of the two rates ("Initial Rate"). On or about the middle of the following month, J. P. Morgan will provide the actual average monthly interest rate (for the prior month) on the investment in the short-term investment account, which will then be compared with the WSJ CP Rate for that month and Money Pool borrowers will be charged the higher of the two rates ("Final Rate"). Any difference between the Initial Rate and the Final Rate will be addressed by a true-up to ensure that the Money Pool borrowers pay only the Final Rate for the applicable period.

For example, in the month of December, 2004, the average of the Commercial Paper rates as reported in the Wall Street Journal was 2.31% and the actual average return on the J. P. Morgan short-term investment account for such period was 2.15%. Under this scenario, Money Pool borrowers would be charged the average Commercial Paper rate. The annualized monthly rate of return on the short-term investment account at J.P. Morgan is calculated by dividing the total income earned during the month (including the change in unrealized gain/loss on the market value of the investments held), by the average daily balance of the total market value of the account, divided by the number of days in the month, times the number of days in the year. In December total income earned on investments was $178,649.32. The change in unrealized gain/loss on investments held was a gain of $151,654.91. The total of those numbers was $330,304.23, which was divided by the average daily balance of $181,006,948.02, divided by

31 (days in December), multiplied by 366 (days in 2004) for an annualized rate of return of 2.15%.

| | | |
|---|---|---|
| Total Book Income | $ | 178,649.32 |
| Change in Unrealized Gain/(Loss) | $ | 151,654.91 |
| Total Market Value Income | $ | 330,304.23 |
| Average Daily Balance | | $181,006,948.02 |
| / Days in December | | 31 |
| X Days in 2004 | | 366 |
| Rate of Return | | 2.15% |

($330,304.23 / $181,006,948.02 / 31 x 366 = 2.15%)

This interest rate method was chosen because it assures that the lending company in the Money Pool will receive a rate that is at least equal to its opportunity cost of excess funds. The rates to perform the necessary calculations are readily available to the Company.

Response submitted by or under the supervision of: Robert G. Seega